Economics | Current Economic Trends

Ontario Economic Briefing

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Economics

Highlights

- Inflation pulls back from record highs
- July building intentions were down slightly from last month, with decreases among CMAs largely offset by the spike in Ottawa
- Average home value in Ontario down over 14 per cent in July from February 2022 peak
- Manufacturing sales move up 0.5 per cent
- Retail spending strong in Ontario

Ontario inflation slows to 7.6 per cent

Bryan Yu, Chief Economist

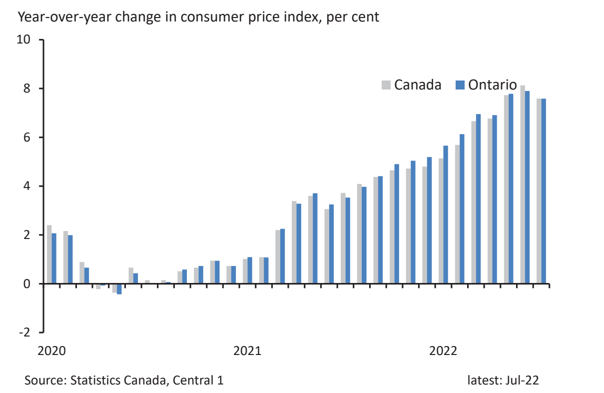
Inflation in Ontario slowed for the month of July. Year-over-year increase was up 7.6 per cent, lower than previous month's 7.9 per cent and matching what was seen nationally. Month-over-month increase was only 0.1 per cent, also equaling the overall national level.

Food prices increases slowed this month. Year-over-year they were up 6.4 per cent as compared to last month, which was up 9.7 per cent. Pork and beef prices continue to climb on higher demand, with each up 9.3 per cent and 4.3 per cent year-over-year. Fresh fruits and vegetables are also up 12.9 per cent and 9.1 per cent. Poultry prices though have remained flat compared to a year ago after prices fell 7.7 per cent over the previous month.

Transportation costs also continue to climb. They are up 12.6 per cent over the past year and 10.5 per cent year-to-date as higher fuel prices are passed on to consumers. The increase in the cost of shelter has slowed to 4.5 per cent year-over-year from 7.3 per cent the previous month along with furnishings, which is also down to 4.7 per cent from 5.5 per cent. On the other end, recreational activity prices are up 8.0 per cent, a 5.3 per cent increase over last month.

Removing the most volatile items, food and energy, price growth has slowed to 5.5 per cent from the previous year. Prices for goods have slowed to a 10.0 per cent increase but services have shown a small uptick, increasing from 5.0 per cent to 5.5 per cent. Despite this, overall signs point towards inflation peaking with effects of higher interest rates continuing to reverberate through the economy — slowing demand.

Ontario inflation slows to 7.6% in July



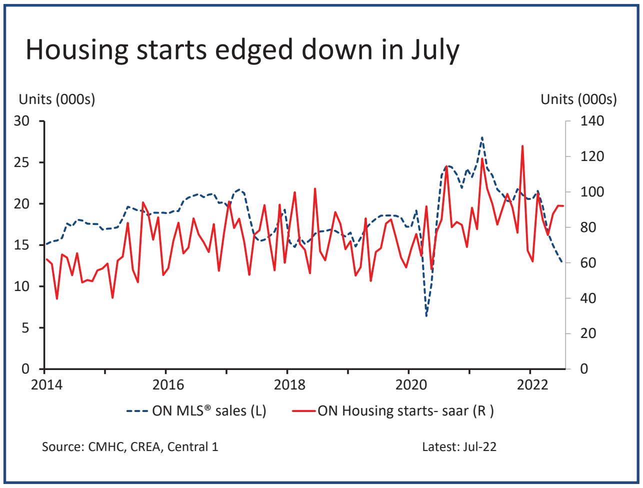
Housing starts edged down in July but remained elevated largely due to increase in Ottawa CMA

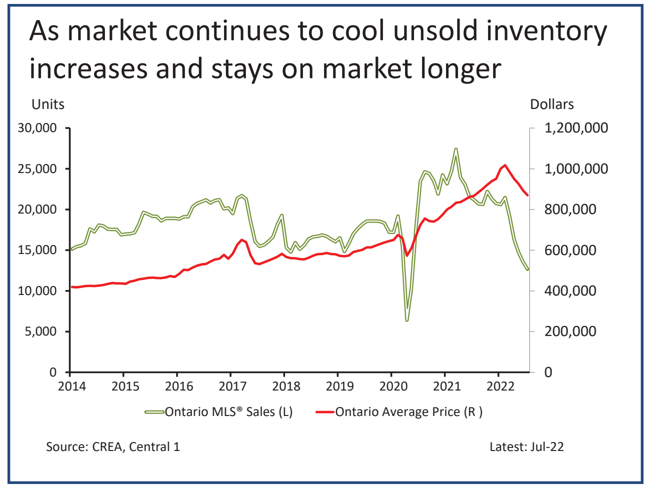
Ivy Ruan, Economic Analyst

Following the robust performance of urban housing starts in June, Ontario new home construction intentions edged down in July, seeing a seasonally-adjusted annualized pace of 92,122 units, down from 92,188 units recorded in June.

June's gain was entirely led by a bump up in multi-family construction while in July, multi-family starts were down slightly to an annualized 70,693 units while detached units rose 0.73 per cent to 21,429 units. Among Ontario's Census Metropolitan Areas (CMAs), starts were wildly mixed. Toronto saw a sharp decrease of 21.7 per cent to 39,105 annualized starts. Kitchener-Cambridge-Waterloo and Hamilton also retrieved the gains from last month and reported annualized rates of 4,885 units (-24.4 per cent) and 2,312 units (-49.4 per cent), respectively. In contrast, the spike in Ottawa (20,896 units) offset most of the decreases in other CMAs, doubled the home starts in June.

Year-to-date urban-area starts reached 47,029 units through the first seven months, continuing to narrow the year-over-year decline to 9.0 per cent following a robust 2021. Single-detached starts fell 17 per cent while multi-family starts were down 6.0 per cent. Due to the large July gain in Ottawa, it was the only CMA other than Toronto reporting an increase in housing starts through the first seven months of 2022. Toronto starts rose 3.2 per cent during the period, while Ottawa saw 2.0 per cent growth. In contrast, most





urban areas recorded substantial declines such as Hamilton (-29.2 per cent), Kingston (-31.5 per cent), and Kitchener-Waterloo-Cambridge (-43.3 per cent) as construction pulled back after a strong 2021 and due to rising capacity constraints.

Despite continuous slowdown in the resale housing market, its impact has yet to spread to the new home market across Ontario, with annualized housing start readings nearly consistent compared to last year. Further slowdown in new building starts is expected during the rest of the year and through 2023 due to reduced demand and higher costs. There is growing pressure on builders/developers to halt large development plans and to concentrate on smaller building projects instead. That said, strong population growth, firm labour market and inflation slowdown may continue to support housing starts.

Average home price growth has now fallen for fifth consecutive month

Edgard Navarrete, Regional Economist

Ontario's resale homes market continues to cool further. New data for July from the Canadian Real Estate Association (CREA) shows that sales and listings slid 6.7 per cent and 2.7 per cent respectively m/m. With demand slowing down as higher mortgage rates spook many potential buyers away from the market, the SNLR continued to descend towards a buyers' market in July coming in at 42.6 per cent down from 44.5 per cent in June.

A couple of factors continue to drive down prices: weaker sales, tougher negotiations by buyers and compositional shifts away from low-rise to high-rise housing. The condo apartment market continues to heat up at the expense of low-rise housing. The average sale price came down in July by 2.7 per cent m/m to $869,824. Compared to the height of the market in February 2022, the average sale price has fallen 14.5 per cent.

Year-to-date, sales and new listings are down 28.2 per cent and 0.4 per cent respectively, while the average price remains 14.7 per cent higher than the same period last year — even with the cooling seen since February's peak.

Of the 44 real estate boards in Ontario, sales fell in 35 of them in July. Major corrections continue to be seen in areas such as:

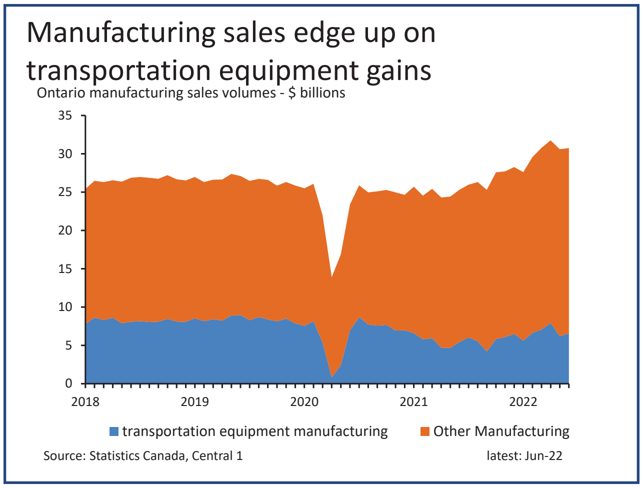
- Kitchener-Waterloo (down 14.3 per cent)
- Greater Toronto (down 7.3 per cent)
- Mississauga (down 11.4 per cent)
- Windsor-Essex (down 15.2 per cent)
- Peterborough (down 10.5 per cent)
- Kawartha Lakes (down 21.3 per cent)

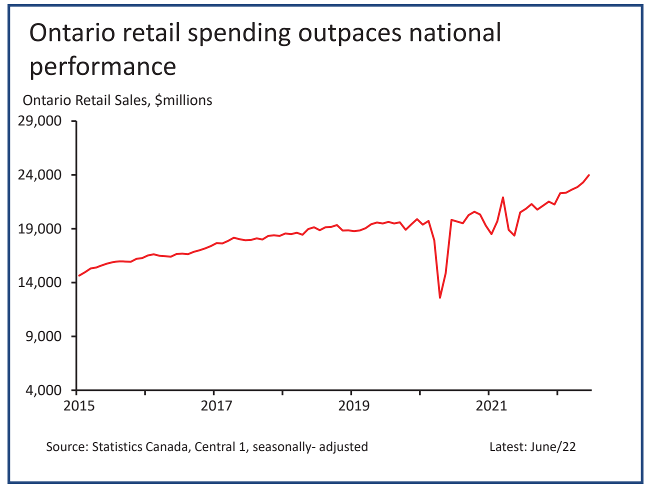
Each month CREA releases a constant quality HPI. The benchmark home price fell in all seven real estate boards. Moreover, the HPIs have now fallen for at least four consecutive months in all seven areas. The largest m/m dips occurred in Oakville-Milton (down 4.2 per cent m/m) and Hamilton-Burlington (down 3.8 per cent m/m). These two areas were quite hot during the pandemic up to February 2022, but now demand in the suburbs is waning as people are returning to Toronto.

Manufacturing sales change little but growth remain strong

Bryan Yu, Chief Economist

Ontario manufacturing activity was little changed in June with factory sales up 0.5 per cent to a seasonally-adjusted $30.7 billion, and despite a slip from April's surge, sales have remained elevated with levels up 21 per cent on a year-over-year basis. Year-to-date, sales were up 21 per cent and led by a 24 per cent increase in non-durable goods activity.





June's modest topline gain reflected a rebound in durable goods sales which rose 3.2 per cent. Sales had surged in April before slumping in May. Motor vehicle manufacturing jumped 13 per cent ($400 million) after a prior month pullback to drive growth, offsetting a decline in parts manufacturing. Gains were also significant in the furniture manufacturing (5.9 per cent), electrical equipment and appliances (5.2 per cent), and machinery (4.1 per cent) sectors.

In contrast, wood product manufacturing fell 4.5 per cent, while the largest non-durable drag was related to petroleum and coal manufacturing which fell 9.4 per cent after a 28.5 per cent increase in May.

Among metro areas, Windsor recorded the strongest declines at 22 per cent during the latest month due to motor vehicle parts (in contrast to vehicle manufacturing), while Toronto (up 2.8 per cent) and Hamilton (up 3.5 per cent) were positive. Kitchener-Cambridge-Waterloo recorded a mild 1.4 per cent decline.

Manufacturing sales are forecast to face some headwinds going forward. While easing supply chains are beneficial for sectors like machinery and motor vehicle manufacturing, slowing global and domestic growth, higher interest rates and a weak housing market are likely to cool demand across sectors.

Retail spending outpaces national performance

Bryan Yu, Chief Economist

Ontario retailers posted a strong month of sales in June to run far ahead of the national performance. Total sales jumped 1.7 per cent from May to a seasonally-adjusted $23.98 billion. In comparison, national sales rose 1.1 per cent during the month. Year-over-year, retail spending rose 16.9 per cent with a similar rate of growth on a year-to-date basis. While exceptionally strong, base-year effects are a factor as the province grappled with various public health measures in early 2021 that curtailed activity.

The current upward trend has reflected the combination of a tight labour market, flow through of high inflation and pass through of higher prices to consumers. National retail spending growth in June was driven by higher prices as constant-dollar sales rose 0.2 per cent, which was far lower than the headline gain. With Ontario inflation pressures similar, these patterns were likely mirrored in the province. That said, nominal sales were 22 per cent higher than pre-pandemic levels.

Among the sectors showing monthly momentum, motor vehicle and parts sales rose from May on a seasonally-adjusted basis and were 11 per cent higher year-over-year. This reflects easing supply constraints. Meanwhile food and beverage stores posted stronger year-over-year (up 1.4 per cent) owing to higher prices in the aisles.

Going forward, inflation pressures and a slumping housing market is expected to temper growth in real consumer demand as households re-allocate spending amidst weaker real incomes, although employment and population growth remain supportive. Dollar-volume sales growth remains robust as households absorb higher prices through increased wages and drawing down excess savings.

For more information, contact economics@central1.com.